

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON GREATER KOKSTAD MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Greater Kokstad Municipality, which comprise statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of GRAP 1, *Presentation of Financial Statements*, requires that financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Greater Kokstad Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Kokstad Municipality as at 30 June 2010 and its financial performance and cash flows for the year then ended in accordance with the Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

10. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of a change in accounting policies due to application of Standards of GRAP in the financial statements of the municipality at, and for the year ended, 30 June 2009.

Fruitless and wasteful and irregular expenditure

11. As disclosed on note 41.1 to the financial statements, the municipality incurred fruitless and wasteful expenditure due to late submission of tax returns amounting to R33, 084 that was condoned by the council during the year. Furthermore, fruitless and wasteful expenditure of R16 997 was incurred for salary overpayments not recovered.
12. As disclosed in note 41.2 to the financial statements, irregular expenditure to the amount of R478 136 was incurred, as a proper supply chain management process had not been followed and awards were made to entities owned by persons in the service of the state.

Material losses

13. As disclosed in note 48 to the financial statements, material loss of electricity to the amount of R5,370 million was incurred by the municipality during the year.

Additional matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

15. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1, *Presentation of Financial Statements*. The supplementary budget information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon.
16. The other supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), the Municipal Supply Chain Management Regulations of South Africa, 2005 (GNR.868 of 30 May 2005)(SCM Regulations) and financial management (internal control).

Predetermined objectives

18. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory and reporting requirements

Lack of implementation of a performance management system

19. The municipality did not have documented and approved internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting of performance information, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements (predetermined objectives)

20. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and/or did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by section 45 of the MSA and regulation 14(1)(c) of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness of reported performance information

21. The following criteria were used to assess the usefulness of the planned and reported performance:
 - Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?

- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit findings relate to the above criteria:

Inadequate content of integrated development plan

22. The integrated development plan of the municipality did not include the performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Reliability of reported performance information

23. The following criteria were used to assess the usefulness of the planned and reported performance:
- **Validity:** Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?
 - **Accuracy:** Have the amounts, numbers and other data relating to reported actual performance been recorded and reported appropriately?
 - **Completeness:** Have all actual results and events that should have been recorded been included in the reported performance information?

24. The following audit findings relate to the above criteria:

Reasons for major variances between planned and actual reported targets were not explained

25. Adequate explanations for major variances between the planned and the actual reported targets for the selected programmes were not reported, as required in terms of the relevant reporting guidance. In total 100% of the reported targets with major variances had no explanation for such variances.

Planned and reported indicators and measures not well defined

26. For the selected programmes, 100% of the planned and reported indicators and measures were not well defined in writing to allow for data to be collected consistently.

Compliance with laws and regulations

Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)(MFMA)

Expenditure was incurred not in accordance with applicable legislation resulting in fruitless and wasteful expenditure

27. Contrary to the requirements set out in section 62(1)(d) of the MFMA, fruitless and wasteful expenditure was incurred, as it was made in vain, and could have been avoided based on the fact that reasonable care had been exercised, as defined in section 1 of the MFMA.

Payments were not made within the parameters set by the applicable legislation

28. Contrary to the requirements of section 65(2)(e) of the MFMA, the accounting officer did not ensure that the invoices or statements were paid within 30 days of receipt of such invoices and statements.

The financial statements were not prepared in accordance with applicable legislation

29. Contrary to the requirements of section 122(1) of the MFMA, the financial statements submitted for audit were subject to material adjustments due to errors noted during the audit.

Municipal Supply Chain Management Regulations of South Africa, 2005 (GNR.868 of 30 May 2005)(SCM Regulations)

Supply Chain Management legislative requirements were not adhered to (resulting in irregular expenditure)

30. Irregular expenditure was incurred due to supply chain management (SCM) processes not being followed, in contravention of regulation 12 and 16 of the SCM Regulations.
31. Contrary to the requirements of regulation 44 of the SCM Regulations, the municipality made awards to entities whose owners were in the service of the state.

INTERNAL CONTROL

32. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives, as well as compliance with the MFMA and the MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
33. The matters below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control of ensuring that the financial statements were free from material errors and omissions as required by the MFMA. Actions were not taken to address risks relating to the achievement of complete and accurate financial reporting, with the result that material misstatements were identified in the financial statements.

- **Financial management**

The financial systems in place were not effective to facilitate the preparation of and reporting on financial statements in compliance with the MFMA and Standards of GRAP as the financial statements were subject to material adjustments as a result of the audit.

- **Governance**

The municipality did not identify risks relating to the achievement of financial and performance reporting objectives to ensure compliance with laws and regulations.

OTHER REPORTS

Investigation

34. An investigation on fleet card utilisation was conducted during the year. No action was taken against the transgressors based on the legal advice that the municipality obtained after receiving the investigation report.

Pietermaritzburg

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence